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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

JE/WZ

14 January 1964

MEMORANDUM FOR THE DIRECTOR*

SUBJECT: The Castro Regime's Economic Situation and Outlook

SUMMARY

There are a number of indications of improved prospects for the Cuban economy, at least in the near term. Favorable developments for the Castro regime have occurred in the field of foreign trade and foreign exchange holdings; they will probably have little impact in the short run on depressed living conditions and levels of production. The regime will continue to be plagued by incompetent management, lack of trained technicians and -- perhaps most serious -- shortages of sugar workers and low morale in the labor force generally. On the other hand, Castro can immediately undertake a modest expansion of imports -- including critically needed items -- and can derive political-psychological advantage by claiming credit for the improvement.

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This memorandum has the concurrence of representatives from ORR, OCI, and SAB/DDP.

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GROUP 1
Excluded from automatic
downgrading and
declassification

1. For some time, the Cuban economy has been stagnant. There are now, however, a number of indications of better prospects, at least in the near term. This improvement in outlook has nothing to do with the regime's economic management (which remains atrocious); rather it stems from high world-market sugar prices, from Soviet willingness to maintain its economic aid program at a very substantial level, and from increasing pressures in a number of Western countries to expand trade with Cuba -- and even to grant medium-term credits -- in spite of US efforts to the contrary.

2. The value of Cuban trade with the free world was considerably larger in 1963 than 1962, almost wholly as a result of the sharp rise in sugar prices. (The average price for Cuban sugar sold to free world customers was about 6 cents per pound in 1963 compared with about 3 cents in 1962.) This permitted the regime to expand its convertible currency reserves from some \$20 million in January 1963 to almost \$100 million in January 1964. The further rise which has taken place in sugar prices will probably permit Cuba -- despite Hurricane Flora and the relatively small sugar crop in prospect -- to expand export earnings somewhat further in 1964.

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3. The Castro regime, with some cash in pocket and reasonably good prospects for future export earnings, has additional bargaining power and trade flexibility, as well as the wherewithal for a modest, general increase in imports. Taking advantage of the present world sugar shortage, it can seek to assure future markets by offering multi-year agreements with sugar prices below the present market. It can work out deals with suppliers in Western countries to obtain capital equipment partly on credit -- e.g., the British bus deal with payments spread over a five-year period. It can spend more hard currency and obtain through intermediaries a larger quantity of spare parts for US-made machinery and of other badly needed items not available from Soviet Bloc countries.

4. This improvement in Cuba's trade position in the West has been accompanied by a continuation of the Soviet commitment to maintain its trade and aid to Cuba at substantial levels. The Soviet-Cuban trade protocol for 1964, signed on 11 January in Havana, specifies a trade turnover between the two countries 22 percent above that in 1963. This suggests that Soviet exports to Cuba -- about 40 percent of which will be furnished on credit --

will be slightly higher than the record level of 1962 and at least 10 percent higher than in 1963.*

5. The improved foreign trade situation should enable the Castro regime to put a brake to the economic decline of recent years. But gains in output are likely to be slow in coming, and improvements in living conditions even slower. The regime is almost certain to make further serious mistakes in planning and administration. Consumer goods will probably not -- at least in the short run -- become plentiful enough to provide a strong new material incentive for the labor force. Perhaps most serious of all, the Cuban leaders have embarked on a potentially risky course in their attempt to reassign part of the labor force to cane cutting and other hard jobs in agriculture, and in their program to obtain increased productivity from industrial workers by imposing work norms and standardized wages.

6. Much will depend upon how shrewd the regime is in implementing measures of this type. If it presses them quickly into widespread application and administers them dogmatically or

* This protocol seems as advantageous as the Cubans could expect. Therefore, we are inclined to the belief that Castro's motivation in flying to visit Khrushchev was more political than economic.

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capriciously, there may be a sharp increase in labor discontent, a step-up in deliberate sabotage, and an outbreak of small-scale worker demonstrations. In any case, its relationship with the labor force will remain a primary internal weakness of the regime for some time to come.

7. The regime in two of its recent actions, has already invited antagonism from sizeable groups in the population. The decree issued last October nationalized practically all farms larger than 156 acres and displaced about 8,000 landowners; Castro has since found it advisable several times to try to quiet the fears of the small private farmers -- who still hold 36 percent of the cultivated land -- that it might be their turn soon. The other action by the regime was the establishment in November of an obligatory military service program which has, as one of its purposes, the rounding up of those whom the regime regards as delinquent, malcontent or undesirable for assignment to military-disciplined labor battalions. This too could lead to more political difficulty than economic benefit.

8. Problems of this sort will continue. However, Castro is sure to exploit any indications of forward motion in the economy, and the measurable improvement in the foreign trade situation gives

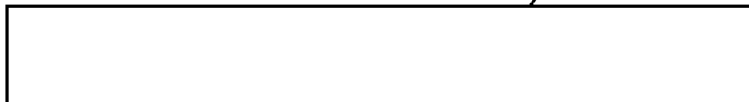
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his regime a political-psychological lift. In particular, he will boast that the attempts of the US to isolate and impoverish Cuba have failed. This may have some effect in Latin America. In Cuba it will lend encouragement to the minority which enthusiastically supports Castro and will further dishearten the majority -- many of whom have already tended to become resigned and apathetic.

FOR THE BOARD OF NATIONAL ESTIMATES:



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SHERMAN KENT
Chairman

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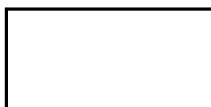
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Date 15 Jan 1964

From Sherman Kent

To: *Dir.*

*As per your request
of Monday.*



*we have given no
distribution outside
of CIA*

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